
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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TO: All Political Subdivisions

FROM: Courtney L. Schaafsma, Commissioner

RE: Legislative Changes Affecting Debt Service Operating Balances

DATE: June 5, 2015

On May 4, 2015, Governor Pence signed into law House Enrolled Act 1388-2015 (“HEA 1388”), which introduces a legislative change concerning debt service operating balances. This memorandum addresses this change. Please note that this memorandum is intended to be an informative bulletin; it is not a substitute for reading the law.

In 2014, IC 6-1.1-17-22 was introduced to govern the amount of operating balance a political subdivision could have in a debt service fund. Section 2 of HEA 1388 amends the statute to clarify the operation of this statute’s provisions. These amendments were effective upon passage.

Henceforth, in determining the amount of the levy for a debt service fund for a budget year, the maximum amount allowed for an operating balance in the debt service fund is the **sum** of the maximum allowable operating balance for **each debt** included in the debt service fund. The maximum allowable operating balance for an **individual debt** is calculated as follows:

- (1) For debt originally incurred after June 30, 2014, the lesser of:
 - (A) 15% of the budget estimate for the debt for the year after the budget year;
 - or
 - (B) the debt payment to be made in the first six months of the year after the budget year.
- (2) For debt originally incurred before July 1, 2014, the lesser of:
 - (A) 50% of the budget estimate for the debt for the year after the budget year;
 - or
 - (B) the debt payment to be made in the first six months of the year after the budget year.

Exhibit A includes a number of examples of how this calculation will be applied for the purposes of budget review and certification.

Unchanged by HEA 1388 are the principles that if debt is refinanced, the date the refinanced debt was originally incurred, and not the date that the refinancing is closed, is the date to be used for purposes of this calculation, and the property taxes allowed for this operating balance may

not be construed as an increase in a political subdivision's property tax levy to offset circuit breakers.

Contact Information

Questions may be directed to Susan Clark, Budget Division Director, at (317) 234-3937 or sclark@dlgf.in.gov.

EXHIBIT A

Example 1: Debt Service Fund with One Debt

Debt Incurred Before July 1, 2014

For the 2016 Budget Year, the Operating Balance will be Based on the Payments Due in 2017.

First Payment Due in 2017	\$ 400,000
Second Payment Due in 2017	\$ 600,000
Total Payments Due in 2017	\$ 1,000,000
Times: Operating Balance Factor	50%
Maximum Operating Balance Allowed	\$ 500,000

Operating Balance is the Lesser of:

First Payment Due in 2017	\$ 400,000
Maximum Operating Balance Allowed	\$ 500,000

Allowed Operating Balance for this Fund **\$ 400,000**

Example 2: Debt Service Fund with One Debt

Debt Incurred After June 30, 2014

For the 2016 Budget Year, the Operating Balance will be Based on the Payments Due in 2017.

First Payment Due in 2017	\$ 400,000
Second Payment Due in 2017	\$ 600,000
Total Payments Due in 2017	\$ 1,000,000
Times: Operating Balance Factor	15%
Maximum Operating Balance Allowed	\$ 150,000

Operating Balance is the Lesser of:

First Payment Due in 2017	\$ 400,000
Maximum Operating Balance Allowed	\$ 150,000

Allowed Operating Balance for this Fund **\$ 150,000**

Example 3: Debt Service Fund with Two Debts

The operating balance allowed for this fund will be the sum of the allowed operating balance for each individual debt.

First Debt:

Debt Incurred Before July 1, 2014

For the 2016 Budget Year, the Operating Balance will be Based on the Payments Due in 2017.

First Payment Due in 2017	\$ 600,000
Second Payment Due in 2017	\$ 400,000
Total Payments Due in 2017	\$ 1,000,000
Times: Operating Balance Factor	50%
Maximum Operating Balance Allowed	\$ 500,000

Operating Balance is the Lesser of:

First Payment Due in 2017	\$ 600,000
Maximum Operating Balance Allowed	\$ 500,000

Allowed Operating Balance for this Debt *\$500,000*

Second Debt:

Debt Incurred After June 30, 2014

For the 2016 Budget Year, the Operating Balance will be Based on the Payments Due in 2017.

First Payment Due in 2017	\$ 600,000
Second Payment Due in 2017	\$ 400,000
Total Payments Due in 2017	\$ 1,000,000
Times: Operating Balance Factor	15%
Maximum Operating Balance Allowed	\$ 150,000

Operating Balance is the Lesser of:

First Payment Due in 2017	\$ 600,000
Maximum Operating Balance Allowed	\$ 150,000

Allowed Operating Balance for this Debt *\$150,000*

Allowed Operating Balance for this Fund **\$ 650,000**